Director of Central Intelligence

~~Top Secret~~

APPROVED FOR RELEASE
DATE: 01-20-2010

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National Intelligence Daily

Saturday
26 April 1980

~~Top Secret~~

CO NID 80-099JX

26 April 1980

Copy 231

Contents

Situation Report

Iran 1

Briefs and Comments

Cuba: *The Refugee Situation* 5

Cuba: *Afghan Initiative* 6

EC: *Summit Meeting*. 8

Nicaragua: *Sandinistas' Hard Line* 9

Pakistan-Afghanistan: *Calls for Accommodation* 10

USSR - West Germany: *Reaction to Olympic Boycott*. 11

Indonesia: *Reaction to US Aid Reduction* 12

OAU: *Economic Summit*. 12

Special Analysis

Southeast Asia: *The Kampuchean Issue*. 13

SITUATION REPORT

IRAN

As the full impact on Iran of the aborted US rescue mission sinks in, we expect a sharp increase in the level of threats to execute the hostages if any additional military action is taken.

The militants' statement yesterday implied that they do not plan on taking any action against the hostages immediately. Nonetheless, we believe they will take several steps.

-- Visits by the Red Cross and families of the hostages will almost certainly be refused for the foreseeable future.

-- Living conditions for the hostages will probably deteriorate. The hostages are likely to face more solitary confinement, cancellation of the already minimal exercise periods outdoors, and more armed guards.

-- Some of the hostages may be moved to other locations as "insurance" against the possibility of another attack.

-- We doubt, in any case, that all of the hostages will be moved because the militants probably are unwilling to relinquish completely control of them.

Ayatollah Khomeini's statement yesterday repeated familiar themes. He accused President Carter of being prepared to "commit any crime . . . in order to be re-elected" and warned that any attack on Iran will lead to violence throughout the Muslim world. Khomeini also charged the US with responsibility for the unrest in the Kurdish region and at Iran's universities.

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West European Reactions

EC governments are limiting their public criticism of the rescue mission in order to maintain Allied solidarity, but most of them are clearly unhappy over the timing and outcome. Although most EC governments agreed to economic sanctions in the hope that the US would not undertake military action, they are unlikely to endorse a Danish suggestion that sanctions be re-assessed when the EC heads of government meet tomorrow in Luxembourg. They will, however, voice concern about the US failure to consult them.

Although West German Chancellor Schmidt has voiced his understanding of the US need for action because of building public pressure, he had repeatedly cautioned against military action. In fact, the West Germans took the lead in the EC decision on sanctions to forestall the need for a US military role.

France has not yet reacted publicly to the rescue attempt. The Thatcher government has reaffirmed its support for the US, noting that the unsuccessful mission has not lessened the need for Allied unity. London anticipates that the passage of enabling legislation for Iranian sanctions, agreed to by the EC last Tuesday, will now be more difficult in some countries, but not in the UK.

Arab Reactions

There have been no reports of anti-US demonstrations in any Arab country. (U)

Algerian, Libyan, and Syrian media are likely to exploit the theme of US "aggression" against Muslims and make renewed calls for sanctions against the US, including an oil cutoff. The radicals, with the probable exception of Iraq, also may offer token assistance to Iran to ward off possible further actions by the US.

Of more immediate concern, Arab extremists friendly to Iran--particularly some radical Palestinians--could attempt to retaliate by mounting terrorist operations against US facilities or personnel abroad.

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There has been no public reaction from Iraq yet. Tehran radio reported some new skirmishes along the border yesterday but did not link them to the US operation.

The failure of the mission is likely to dismay Arab moderates and cause some to question further the ability of the US to help defend the region from threats posed by the Soviets and the radical Arabs. They will compare the operation unfavorably to the successful Israeli operation in Uganda in 1976.

Over the short term, the moderates will be under increasing pressure to play down their ties to the US, and the abortive mission may cause further reluctance to cooperate militarily with the US. Those Arab countries publicly alleged to have supported the operation--particularly Egypt--will be targets of radical Arab criticism, and perhaps terrorist attacks. As the closest US ally in the region, Israel also could be the target of intensified terrorism.

Pakistan

An official Pakistani spokesman last night termed the aborted US rescue effort a "serious violation" of Iran's sovereignty that could have far-reaching consequences for regional security. He denied foreign press reports that Pakistani bases had been used by the US aircraft, and praised Iranian Foreign Minister Ghotbzadeh's "statesmanlike" reaction in counseling restraint. (U)

USSR

Soviet commentary on the rescue mission has been harsh, but there has been nothing in the Soviet reaction linking the US move to Soviet security interests, nor any indication that Moscow plans a direct response. The Soviets dismissed the President's statement that the mission was a humanitarian action and accused the US of "reckless actions." A TASS report reiterated Soviet

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claims that the US is using the hostage issue as a pretext to pressure Iran and to strengthen the American military presence in the area. In Paris, Foreign Minister Gromyko said the USSR was resolutely opposed to any military measures against Iran.

The Soviet reaction appears to reflect Moscow's apprehension and uncertainty about US intentions toward Iran as well as its interest in exploiting the US move to further its ties with Tehran. Soviet comment has sought to use the mission to inflame Iranian opinion against the US. One TASS dispatch, for example, reported Iranian claims that the US forces resorted to violence against Iranians at the landing area and implied they had killed an oil tank truck driver.

A Soviet Persian-language broadcast charged that the President was guided solely by political considerations. TASS has also criticized the NATO countries for failing to stop US "reckless actions." (U)

Cuba

President Fidel Castro has sent a message to Khomeini expressing "solidarity" in the face of "grave threats" made by the "Yankee imperialists" against the Iranian revolution. (U)

China

In a previously scheduled meeting with Ambassador Woodcock yesterday, Chinese Vice Foreign Minister Zhang Wenjin expressed sadness and regret over the American deaths and continued sympathy for the US as it tries to resolve the hostage crisis. China has not yet publicly commented on the rescue mission.

Japan

Japanese Prime Minister Ohira today was generally sympathetic to the US action; he stated that the aborted mission will not affect Japanese sanctions against Iran.

BRIEFS AND COMMENTS

CUBA: The Refugee Situation

President Castro has diverted attention away from the situation at the Peruvian Embassy by initiating a massive exodus of Cubans to the US.

As many as 2,000 persons have arrived in Florida by boat in the past week, and yesterday Castro indicated private aircraft would also be allowed to pick up refugees. Hundreds of those who have arrived in Florida were not among the estimated 10,800 who sought asylum in the Peruvian Embassy compound.

At least 1,200 refugees remain virtual hostages on the Embassy grounds. Soldiers, policemen, party members, and government officials believed to be on the compound presumably are convinced their lives would be in danger if they left. Most probably will remain until safe passage off the island is guaranteed by another country or some international body.

Castro is seeking to shift international attention from the domestic problems that provoked the refugee situation to US military exercises scheduled for 8 May at the US Naval Base at Guantanamo. He believes they represent a real threat to his government and is soliciting international support in protesting the exercises as an unjustified military provocation.

As part of this effort, Castro plans to rally 1 million people in Havana on May Day and to hold demonstrations throughout the island, including a march involving another 1 million in front of the US Interests Section on the day of the exercises.

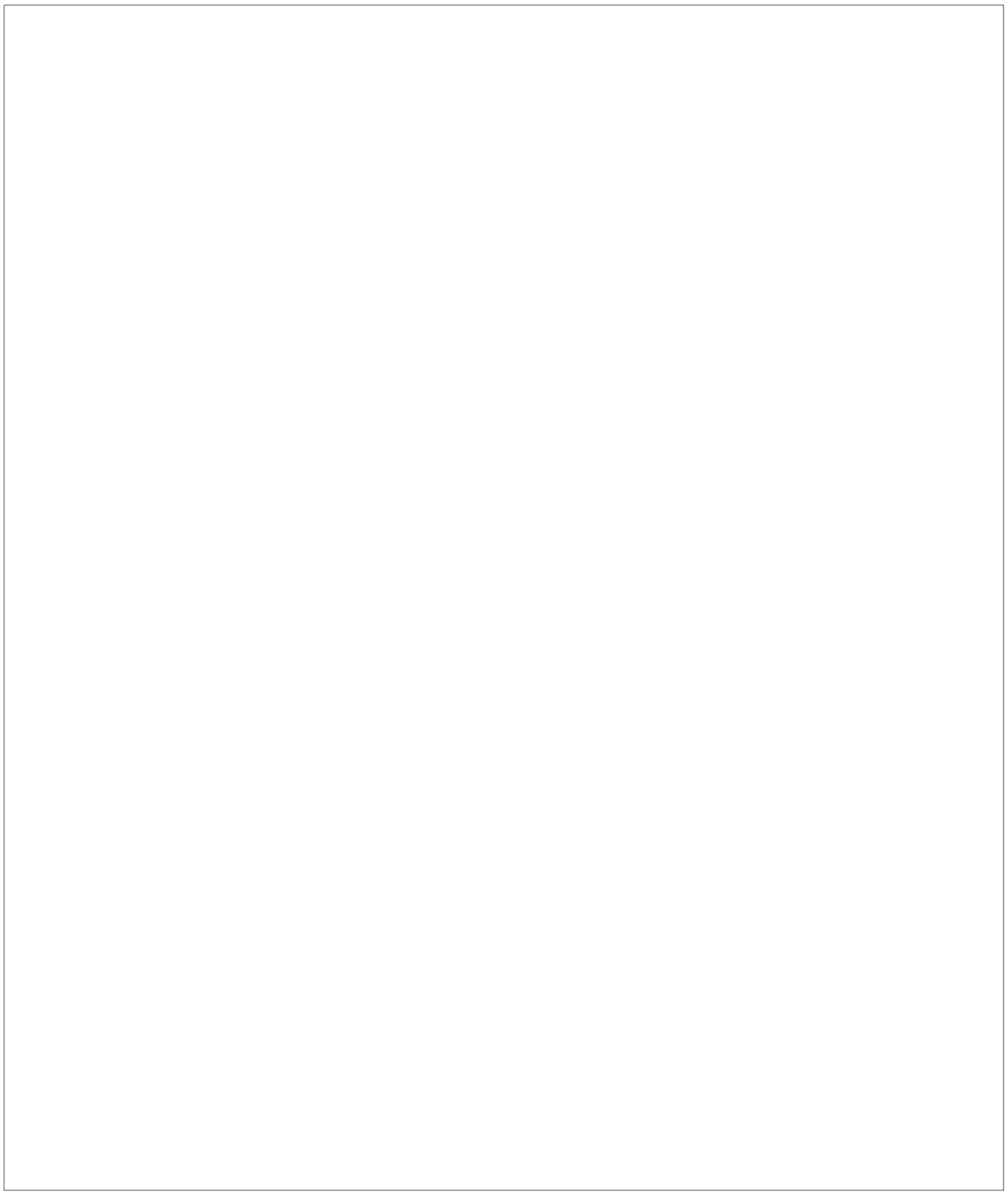
CUBA: Afghan Initiative

Cuba's efforts to reduce the damage to its interests caused by the Soviet invasion of Afghanistan so far have been inconclusive.

Because of its economic and military dependence on the USSR, Havana could not avoid supporting Moscow's position. This undercuts Cuba's claims to Third World leadership and may endanger the economic benefits Havana receives from key Arab nations. Cuba was one of only nine members of the Nonaligned Movement in the UN to vote against the resolution condemning the invasion.

The Cubans reportedly have no concrete proposals other than to mediate a meeting between Presidents Zia and Babrak in Havana. Zia flatly rejects the idea until Soviet troops are withdrawn from Afghanistan. Other nations have been negative or noncommittal.

Castro's efforts have temporarily circumvented criticism from the Nonaligned nations, but Havana's respite will be brief if the hard line taken by the Islamic Conference in January is reaffirmed at its meeting next month. Over the longer run, Cuba's continued indentification with the Soviets on this issue is likely to erode further Castro's position in the Nonaligned Movement.



EC: Summit Meeting

EC heads of government probably will reach a compromise on the UK's net contribution to the EC budget when they meet in Luxembourg tomorrow and on Monday, but a complete solution to the problem is not yet in sight.

Enough of a compromise is expected at Luxembourg to dissuade Prime Minister Thatcher from making good on her threats to block EC farm price increases and to withhold the UK's payments to the Community. Some aspects of the budget problem could be taken up again at the next EC summit in Venice this June. Full resolution of the budget issue depends on reform of the EC's farm policy, which France will not even consider until after its presidential election next spring.

NICARAGUA: Sandinistas' Hard Line

The Sandinistas are taking a tough line in dealing with reaction to their efforts to pack the Council of State.

Sandinista leaders have initiated a well-orchestrated campaign of harsh media statements, diplomatic contacts, and private signals to force political opponents back to their minimal demands. Speaking for the Sandinista National Directorate, Bayardo Arce on Wednesday publicly attacked Alfonso Robelo--who resigned this week from the governing junta--for disloyalty to the revolution. Arce said that Robelo and Violeta de Chamorro, another junta moderate who recently quit, will be replaced by "representatives of the masses."

The Sandinistas' intransigence has been reinforced by their concern that armed groups opposed to their rule are becoming increasingly active.

Robelo, meanwhile, continues to organize opposition to the Sandinistas. Some 17 members of his Nicaraguan Democratic Movement have resigned their government posts,

PAKISTAN-AFGHANISTAN: Calls for Accommodation

Some of President Zia's opponents are calling for a more accommodating policy toward the Soviet-imposed regime in Afghanistan, but Zia is unlikely to alter his hardline approach.

Two opposition leaders--both recently released from six months' house arrest--have strongly denounced Zia's policy toward Afghanistan and the political repression under his regime. The widow of executed former Prime Minister Bhutto, who now leads the left-of-center Pakistan People's Party, has stated that she would accept the present regime in Kabul, prevent the Afghan dissidents from operating out of Pakistan, and force the refugees back across the border. Former Air Marshal Asghar Khan, leader of a moderate party, has urged that Zia hold direct negotiations with Afghan President Babrak.

The People's Party would probably win any free election; Asghar Khan is popular among military officers, industrialists, and professional people. The attacks by these two leaders could become a serious threat to Zia but evidence is lacking, so far, of any groundswell of support for an accommodation with Afghanistan. Most Pakistanis are likely to react against the repression of their coreligionists in Afghanistan, and the denunciations of Zia on the Afghan issue could strengthen his limited political base.

Zia shows no sign of dealing with the Babrak government while Soviet troops remain in Afghanistan.

USSR - WEST GERMANY: Reaction to Olympic Boycott

An authoritative article in *Pravda* yesterday signed by "A. Petrov," signifying Central Committee approval, criticized West Germany's decision on Wednesday to boycott the Olympics as "an obvious relapse back to the Cold War in West German policy." In Bonn, Soviet Ambassador Semyonov warned a West German official that the decision will revive the Soviet population's memories of Nazi aggression. Both *Pravda* and Semyonov, however, took care to balance their comments. The *Pravda* article heaped more of the blame on the US than on West Germany, and failed to mention Chancellor Schmidt by name; Semyonov hinted that the boycott would not become a major impediment to bilateral relations.

INDONESIA: Reaction to US Aid Reduction

President Suharto is deeply angered by US plans to halt PL-480 rice sales and to cut other aid and by successful US efforts to block concessionary rice sales by Japan to Indonesia. The government fears that the US cutback and Indonesia's strong foreign exchange position will encourage donors to commit at next month's meeting of the Indonesian aid consortium less than the $2.1 billion recommended for this year by the World Bank. One-fifth of Indonesia's 2 million tons of rice imports last year was subsidized by the US and Japan. Rice supplies are always a key political issue, and Suharto wants to make certain that there are no shortfalls.

OAU: Economic Summit

Ministers from member states of the Organization of African Unity are meeting to prepare for a two-day economic development summit to begin Monday in Lagos. The keynote speaker at the ministerial session, Nigerian Vice President Ekwueme, has called for greater self-sufficiency in food production and more rapid industrialization to reduce dependence on the developed countries. The ministers have appealed for restraint by the new government of Liberia, welcomed a Zimbabwe delegation, and renewed OAU efforts to end hostilities in Chad. Few chiefs of state are likely to attend the summit, reflecting their uneasiness after the assassination of Liberia's President Tolbert, this year's OAU chairman.

SPECIAL ANALYSIS

SOUTHEAST ASIA: The Kampuchean Issue

Leaders of some of the states that comprise the Association of Southeast Asian Nations--Thailand, Malaysia, Singapore, Indonesia, and the Philippines--are trying to change ASEAN's position that Vietnam must withdraw its forces from Kampuchea and allow the Kampucheans to determine their own future. No member state, however, will risk breaking ASEAN unity to negotiate separately with Vietnam on a compromise solution. Any change will come slowly after the emergence of an ASEAN consensus and Vietnamese concessions.

Malaysian and Indonesian leaders are providing the impetus for change. They consider China to be the primary threat to regional security, and they also are concerned about the potential dangers to internal stability posed by their important domestic Chinese populations.

Like other members of ASEAN, Malaysia and Indonesia were shaken by the Soviet invasion of Afghanistan. They now fear that Hanoi's almost total dependence on Moscow for aid--fostered by China's long-term strategy of bleeding Vietnam in Kampuchea--will enable the Soviets to increase their military presence in Vietnam.

Leaders in Kuala Lumpur and Jakarta believe that the limitation of superpower rivalry in Southeast Asia should be one of ASEAN's primary goals. They also believe that the US should ultimately influence the situation by recognizing Vietnam and, together with Japan and the West generally, should provide economic aid. This, they argue, would enable Vietnam to reduce its dependence on the USSR and act as a buffer between ASEAN and potential Chinese expansionism.

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Thailand, as ASEAN's frontline state bordering Indochina, will play the critical role in determining any change in ASEAN policy. The replacement of former Prime Minister Kriangsak--the architect of Thailand's current pro-China stance--by General Prem seems to have started a reappraisal of policy toward Vietnam.

Some Thai leaders still believe that the Soviet-backed Vietnamese presence in Kampuchea represents a major threat to Thailand and must be opposed. They also contend that China would be angry at any change in policy and might retaliate with increased support to the quiescent Communist Party of Thailand. Other Thai officials believe that Thailand must come to terms with the reality of Vietnam's presence in Kampuchea.

Singapore is reacting nervously and will continue to preach against any change in policy. It has taken the toughest anti-Soviet, anti-Vietnamese line in ASEAN and fears it may be left out on a limb.

Singapore's ability to sway its fellow ASEAN members is limited because its predominantly Chinese composition makes it suspect in the eyes of some key ASEAN leaders. The Philippines probably will agree, although reluctantly, to a change in policy so long as it represents an ASEAN consensus.

Hanoi's Position

The major question is whether Vietnam is willing to make concessions that would satisfy both Thailand and ASEAN as a whole. Hanoi insists the Kampuchean situation is "irreversible," and its tough leadership remains united and arrogant.

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On the other hand, Hanoi may be feeling the pressure of its international isolation. The Vietnamese also may be unhappy over the prospect of unending dependence on the Soviets.

The time thus may be ripe for both sides to negotiate. ASEAN probably would seek a withdrawal of Vietnamese troops at least some distance away from the Thai border, a broadening of the Phnom Penh regime and, perhaps most importantly, the return home of Kampuchean refugees. Hanoi would press for the recognition of the Heng Samrin government and the cessation of aid to Pol Pot. There have been some oblique hints that Hanoi might be willing to make changes in the Heng Samrin regime, but there is no sign that Vietnam would undertake a substantial withdrawal of its troops as long as Pol Pot's guerrillas remain a credible fighting force.

Two events will provide indicators of any progress toward a compromise solution: the visits of Thai Prime Minister Prem to other ASEAN capitals and Vietnamese Foreign Minister Thach's trips to Kuala Lumpur and Bangkok, and possibly Jakarta, next month.

In the meantime, ASEAN will continue to espouse in public its tough policy and to emit conflicting messages in private as a means of testing official and public reaction. ASEAN will collectively resist superpower pressure to sway the course of the discussion, but Thailand, Singapore, and the Philippines will watch carefully for signs of any US policy change before making up their minds.